EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		✓		
20					
21					
22					

SUSPENSE ______________ Date

Remarks

cc: OGI

Executive Secretary

7/18/84
Date

3637 (10-81)

THE WHITE HOUSE

Executive Registry
84 - 2689/1

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 7/16/84 Number: ------------ Due By: ------------

Subject: Cabinet Council on Economic Affairs Minutes: May 22, May 29, June 12, and June 26, 1984

	Action	FYI
ALL CABINET MEMBERS	☐	☑
Vice President	☐	☐
State	☐	☐
Treasury	☐	☐
Defense	☐	☐
Attorney General	☐	☐
Interior	☐	☐
Agriculture	☐	☐
Commerce	☐	☐
Labor	☐	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☐	☐
Energy	☐	☐
Education	☐	☐
Counsellor	☐	☐
OMB	☐	☐
CIA	☐	☐
UN	☐	☐
USTR	☐	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☐	☑
CEQ	☐	☐
OSTP	☐	☐
Baker	☐	☑
Deaver	☐	☑
Darman *(For WH Staffing)*	☑	☐
Mc Farlane	☐	☑
Svahn	☐	☑
Chapman	☐	☑
Executive Secretary for:		
CCCT	☐	☑
CCEA	☐	☑
CCFA	☐	☑
CCHR	☐	☑
CCLP	☐	☑
CCMA	☐	☑
CCNRE	☐	☑

REMARKS: Attached for your information are the minutes of the following meetings of the Cabinet Council on Economic Affairs:

May 22, 1984
May 29, 1984
June 12, 1984
June 26, 1984

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456–2823 (White House)

☐ Don Clarey
☑ Tom Gibson
☐ Larry Herbolsheimer

Associate Director
Office of Cabinet Affairs
456–2800 (Room 129, OEOB)

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 22, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Block, Feldstein, McNamar, McLaughlin, Ford, Abrams, Smith, Porter, Gibson, Healey, Chapoton, Monks, Tharpe, Cicconi, Gray, Neal, Cogan, and Ms. Risque, Ms. Horner and Ms. McCaffrey.

1. OECD Ministerial

Secretary Regan reviewed the results of the Organization for Economic Cooperation and Development (OECD) Ministerial meeting held May 17 - 18 in Paris. He reported that the meetings produced favorable results for the United States generally on structural and macro economic issues, but the U.S. interest rates were a major concern to most other nations. Member nations also discussed the issue of European unemployment. The participants failed to reach agreement on the controversial issue of "mixed credits."

Secretary Regan also reported on the G 10 meeting of finance ministers and officials held in Rome. The group reviewed the progress of a major study on the international monetary system which is scheduled for completion in 1985, at the earliest. It will provide a base for international discussion regarding such issues as exchange rates and general equilibrium in the international economy.

The Council's discussion focused on the international debt situation and the prospects of high U.S. interest rates being raised at the London Economic Summit in June.

2. Financial Institutions Deregulation Legislation

Assistant Secretary Healey reviewed the status of financial institutions deregulation legislation in the Senate Banking Committee. Markup of a compromise bill is expected shortly after the congressional Memorial Day recess. Committee negotiations are focused on the following provisions:

1. Establishing a new definition of a "bank" based on whether an institution is eligible for Federal deposit insurance;

   This provision would close the nonbank-bank loophole in the Bank Holding Company Act that enables financial institutions that are not banks or S&Ls to gain access to insured deposits. The new definition may encompass also some non-insured financial entities, such as credit card issuers, enabling them to gain access to the Federal payment mechanism, but not the Federal insurance.

2. Simplifying procedures for establishing bank holding companies;

3. Determining what ongoing activities will be grandfathered if not approved by the bill;

   Mr. Healey noted that this issue will receive even greater attention as bank and non bank concerns divest to conform with the final provisions of the legislation.

4. Determining the scope of permissible financial activities for bank holding companies;

   Mr. Healey stated that the preferred Administration approach would be to give the Federal Reserve sufficient discretion to ensure flexibility in determining and expanding future permissable bank holding company activities.

5. Authorizing bank holding companies to underwrite and deal in municipal revenue bonds and mortgage-backed securities; engage in discount brokerage; and, perhaps, operate mutual funds.

6. Prohibiting State chartered banks that are members of holding companies from offering services outside their home States that are not permitted under the Bank Holding Company Act.

   Mr. Healey noted that the Administration opposes this provision as an unneccessary Federal usurption of State banking practices.

7. Exempting qualified thrift institutions from the new holding company regulations; and

8. Permitting banks to engage in real estate investment.

   Mr. Healey noted that this provision may be advanced by an FTC report showing possible anticompetitive activity in the real estate brokerage industry.

The Council's discussion focused on the provision permitting regional banking compacts, competing banking interest groups, the surprising support from among community bankers for the Administration's FIDA bill, and the unwelcome possibility that a stripped down regulatory bill will be substituted for FIDA in the House fueled by problems associated with Continental Illinois National Bank.

The Cabinet Council requested that Mr. Healey prepare talking points on the benefits of banking deregulation for members of the Administration.

3. Reversion of Assets from Pension Plans

Assistant Secretary Chapoton reviewed the Administration's general policy, approved by the Cabinet Council on March 15, 1984, regarding the reversion of excess assets in defined-benefit pension plans. The Administration's policy permits employers to obtain excess assets in an overfunded pension plan without first terminating the plan, provided employers take prescribed precautions to protect the interests of beneficiaries.

Mr. Chapoton stated that the Department of Labor, the Internal Revenue Service, and the Pension Benefit Guaranty Corporation have suggested adding two provisions to the Administration's policy requiring faster funding contributions by employers following a reversion, and restricting employers to only one asset reversion every fifteen years to void anticipated problems that firms will use pension plans and reversions as a method of tax avoidance. Mr. Chapoton also stated that the three agencies favor a joint release of a policy statement to end continued confusion among employers and beneficiaries regarding permissable reversion behavior.

The Committee discussion focused on the possibility that legislation will be necessary in the future should abuses occur with reversions; the problems of releasing pension policy information; and the significance of overfunded pension plans with regard to mergers and takeovers.

The Cabinet Council agreed that the Departments of Labor, IRS, and PBGC should jointly release "Federal Implementation Guidelines" on how employers should behave in tapping excess assets in an ongoing, overfunded, defined-benefit pension plan to ensure the safety of beneficiaries' interests.

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

May 29, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Block, Baldrige, Feldstein, Svahn, Porter, Wright, Wallis, Ford, Knapp, Lighthizer, Archer, Chapoton, Gibson, Platt, and Li, Ms. McLaughlin and Ms. Risque.

1. Unitary Taxation

Mr. Chapoton presented a status report on the worldwide unitary taxation issue. He briefly reviewed the background of the Worldwide Unitary Taxation Working Group and its technical-level Task Force. At its December meeting, the Working Group rejected for now restrictive Federal legislation to implement any Working Group recommendations.

At its final meeting on May 1, the Working Group considered six options developed by the Task Force. Option one would apply solely to foreign-based multinationals, while Options two through six would limit the unitary method to the water's edge. Options two through six differ primarily in the State tax treatment of dividends received by U.S. corporations from foreign subsidiaries. States are willing to use the water's edge principle, but want to tax dividends from abroad which would amount to double taxation of dividends.

Although the Working Group did not agree on any of the options, it did agree on a set of three principles to guide the formulation of State tax policy:

1. Water's edge unitary combination for both U.S.- and foreign-based companies;

2. Increased Federal administrative assistance and cooperation with the States to promote full taxpayer disclosure and accountability; and

3. Competitive balance for U.S. and foreign multinationals and purely domestic businesses.

The Council discussed whether the Working Group could make further progress on the dividend taxation issue. It noted that while the Working Group has made substantial progress on this issue, it will probably have to be resolved in the State legislatures. States are likely to tax dividends partially, rather than provide for foreign tax credits.

The Council discussed the likelihood that the twelve States currently using the unitary method of taxation will adopt the water's edge recommendation. It appears that competition between States for foreign investment and greater employment will encourage States to adopt the recommendation.

2. Employment Patterns and Prospects

Mr. Porter presented a paper analyzing the effect of technology on U.S. employment. Europeans have traditionally shown great interest in U.S. technology and have recently been particularly interested in the role that technology has played in stimulating employment growth in the U.S.

Much of the recent discussion has focused on two conventional arguments:

1. High technology will generate large numbers of jobs for which many people are inadequately trained. Therefore, massive government programs will be needed to provide our labor force with increased science, math, and technical education.

2. High technology will displace large numbers of workers by automation. Hence, something will have to be done for a growing group of displaced workers.

There is some uncertainty over what exactly constitutes "high technology." The working group agreed that it is more useful to define high technology industries as those which manufacture high technology products, rather than those which use them since almost all sectors of the economy use high technology products.

A Bureau of Labor Statistics report estimated that, depending on the definition used, high technology industries in 1982 employed between 2.8 and 13.4 percent of all wage and salary workers. Moreover, because of its relatively small size, high technology industries accounted for only about 5 to 15 percent of the net increase in wage and salary jobs from 1972 to 1982. The sector employing the largest number of people and generating the largest number of net new jobs by far has been the service-producing sector, which created 91 percent of the net new jobs in the economy from 1973 to 1983.

While high technology may directly employ a relatively small proportion of the workforce, it has had salutary effects throughout the entire economy. Despite claims that high technology will displace large numbers of workers, technological advances in general have been consistent with employment growth in the U.S. High technology can increase labor productivity and hence enlarge the economic pie and increase industrial competitiveness.

The U.S. has achieved remarkable employment growth, particularly when compared to other industrialized countries, without government planning. By relying principally on the market to allocate resources, the U.S. has gained sufficient flexibility to adapt to technological change.

Council members discussed the interaction of high technology with the rest of the economy. High technology improves the productivity and competitiveness of agriculture, basic manufacturing, and services.

Many Europeans are eager to learn how the U.S. has generated strong employment growth. It appears that many European countries are gradually moving away from traditional industries to higher technology ones. However, they still appear to be relying on government directing resources to industry. Council members also noted the adverse effect that start-up and termination costs have on the willingness of employers to hire workers in Europe.

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

June 12, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Donovan, Block, Baldrige, Brock, Porter, Gibson, Healey, Neal, Abrams, Cicconi, Breeden, Ballentine, Poole, Ms. McLaughlin, Ms. Whittlesey, and Ms. McCaffrey.

1. London Economic Summit

Secretary Regan briefed the Cabinet Council on the Economic Summit held in London June 7 to 9, 1984. He reported that Summit participants generally agreed that economic recovery is underway, although the pace of recovery is not uniform worldwide. Great Britain and West Germany, which continue to suffer from historically high levels of employment, joined other nations in remarking about the phenomenal capacity of the American economy to generate new jobs. Over the past ten years, approximately 20 million new jobs have been created in the United States. The French are increasingly introducing more incentives for entrepreneurship and job creation. Secretary Regan noted, however, that some of these incentives are likely to include direct Government subsidies to small businesses.

Secretary Regan observed that Summit participants expressed concern about four economic issues: high U.S. interest rates; the international debt situation; the stability of the U.S. banking system; and European unemployment. The Europeans are concerned that the U.S. deficit will increase interest rates, choking off the recovery. Secretary Regan reiterated his assurances to the Europeans that high interest rates are also a burden to the United States and emphasized the significance of a the deficit downpayment legislation moving through the Congress.

Secretary Regan also reported that the Europeans were very concerned about the Continental Illinois Bank situation which they perceive to be endemic to the American banking system as a whole. Their concern is that a major default by a third world nation on loans held by American banks would deplete the capital of U.S. deposit-insuring agencies, causing worldwide repercussions. Secretary Regan explained the that there is little likelihood of a crisis in view of the positive steps already taken by debtor nations to reschedule more than $60 billion in loans. He also discounted the likelihood of a debtor cartel resulting from the meeting of third world nation finance ministers scheduled later this month.

Secretary Regan reported that the United States and Japan were unsuccessful in gaining support from other nations attending the Summit for announcing a new round of trade talks in 1985. Such negotiations would include incorporating services into existing GATT agreements.

The Council discussion focused on the impact of the deficit on interest rates; anticipated lower GNP growth during the second and third quarters; and the prospects of the deficit downpayment legislation.

2. Report of the Working Group on Financial Institutions Reform

Assistant Secretary Healey outlined for the Cabinet Council the provisions of the St. Germain - Wylie "Financial Institutions Equity Act" (H.R. 5734), designed to close the "nonbank loophole" and reregulate the financial industry by redrawing a distinction between banking and other financial services. The Administration supports the alternative Senate Garn bill incorporating the Administration's FIDA proposal, previously approved by the Cabinet Council. The Garn bill is designed to enhance the safety and soundness of the financial system, while also promoting equity between banks and other financial service institutions. It would acknowledge the substantial de facto competition which has already occurred, as a result of market forces, among financial service institutions. In addition, the Garn bill would balance the market effects of the decontrol of interest rates on deposits by enabling banks to more efficiently raise the capital necessary to finance the higher costs of loanable funds.

The Working Group requested that the Cabinet Council approve testimony opposing H.R. 5734, scheduled for delivery by Secretary Regan before the House Banking Committee, June 20. Mr. Healey stated that Secretary Regan's testimony would focus on why an expansion of depository institutions holding company's powers, rather than measures separating banking from other financial services, is sound public policy.

The Council's discussion focused upon specific measures of the financial institution legislation; assuring the safety and soundness of the banking system; the blurred lines between bank and non bank financial institutions; concerns that deregulation will result in incentives for self dealing and tying activities among regulated financial institutions; the causes of the Continental Illinois Bank problem; and consumer perceptions about financial deregulation.

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

June 26, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Brock, Porter, Wright, Ford, Keel, Lighthizer, McCormack, Carliner, Donatelli, Herbolsheimer, Kearl, Johnson, McMinn, Neal, and Li, Ms. Risque.

1. Report of the Working Group on the Economic Impact of International Trade

Mr. Lighthizer presented a report from the Working Group on the Economic Impact of International Trade, which reviewed the microeconomic policy actions that could improve the U.S. merchandise trade and current account balances. The Working Group concluded that the current large trade deficits are due primarily to macroeconomic factors including the strong U.S. dollar, more rapid economic growth in the U.S. than among our major trading partners, and the international debt situation which has caused many lesser developed countries to reduce significantly their imports. These problems are not generally amenable to microeconomic policy solutions.

He reviewed the record of the Administration's trade policy in four broad areas.

a. Promoting Exports

The Administration has maintained Export-Import Bank funding, expanded Commodity Credit Corporation authorizations, initiated trade liberalization negotiations with Japan, encouraged the European Community (EC) to maintain market access, removed U.S. export disincentives, suspended the Soviet grain embargo, negotiated a long-term grain agreement with the U.S.S.R., worked with the Congress to pass the Export Trading Company Act, and negotiated a series of Bilateral Investment Treaties.

b. Opposing Unfair Trade Practices

The Administration has initiated more countervailing duty (CVD) and antidumping cases than any previous Administration, negotiated the US-EC Steel Arrangement, initiated 24 General Agreement on Tariffs and Trade (GATT) cases to challenge unfair trade practices, initiated numerous Section 301 cases, worked to reduce agricultural subsidies by the EC and Brazil, and aggressively used Eximbank financing.

c. Strengthening the Open Trading System

The Administration has opposed protectionist legislation, rejected the Section 301 steel petition and the Section 201 Houdaille petition, initiated the Quadrilateral mechanism which resulted in an agreement to accelerate the multilateral trade negotiations tariff cuts, worked with the Congress to pass the Caribbean Basin Initiative, and is working to pass the renewal of Generalized System of Preferences.

d. Promoting Adjustment

The Administration has pursued policies that have produced strong noninflationary economic growth which facilitates adjustment, approved five Section 201 cases to provide time for adjustment to certain industries, signed a voluntary restraint agreement on Japanese autos, and implemented the textile program.

Despite the relative success of the Administration on the trade front, a number of problems remain. The trade and current account deficits are at unprecedented levels. There is a growing sense that the GATT is not working as originally intended. Despite the five trade liberalization packages offered by Japan, there is still the perception, as well as the reality, that certain Japanese markets are still significantly closed to foreign competition. Finally, there is the perception that foreign industrial targeting leads to adverse impacts on the U.S.

Mr. Lighthizer recommended that the Cabinet Council conduct a study evaluating the economic impacts of long-term trade deficits on the U.S. economy and industrial competitiveness. He also suggested that the study look at ways of improving our leverage in trade negotiations and consider more dramatic changes in trade, e.g., bilateral free trading arrangements and structuring a new round.

Council members discussed the difficult prospects for trade policy over the next several years, particularly given the expected large trade deficits, and the long-term effect that large trade deficits can have on U.S. industrial competitiveness.

Council members noted that arguments claiming that the Administration has been protectionist lack perspective. The number of exceptions to our free trade posture have been remarkably small when considering the size of the trade deficit and the record of other countries. Moreover, vigorous enforcement of countervailing duty and antidumping laws is necessary in order to maintain the constituency for free trade.

The Council agreed to commission a study evaluating the following issues:

1. What is the probability of large merchandise trade and current account deficits continuing for several years?

2. If large trade deficits persist, what would be the impacts on the U.S. economy?

3. If economic growth recovers among our major trading partners and slows down in the U.S. and the trade deficits remain large, what factors would explain this phenomenon? Are there fundamental differences in the trade environment between the 1970's and 1980's?

4. What are the differences in trade negotiating leverage between the U.S. and other countries?

5. Should U.S. policy shift toward greater emphasis on tariffs when some sort of trade restraint action is considered appropriate?

6. What is the appropriate role, if any, of the U.S. government in addressing distortions arising from the behavior of government-controlled entities on trade issues?

The Executive Secretary will establish a Working Group including representatives from the affected agencies to undertake this study.

Mr. Lighthizer will prepare a short paper, based on his presentation, outlining the Administration's trade policy record for distribution to Council members.